ANNUAL REPORT

for the fiscal year
ending Dec. 28, 1985

Nova Scotia Dairy Commission

His Honour
The Honourable Alan R. Abraham, C.D.
Lieutenant-Governor of the Province of Nova Scotia
Government House
Halifax, Nova Scotia

Dear Sir:

I have the honour to transmit herewith the Annual Report of the Nova Scotia Dairy Commission for the year 1985.

I am, Your Honour,

Yours very truly,

Roger S. Bacon

The Honourable Roger Bacon
Minister of Agriculture and Marketing
P.O. Box 190
Halifax, Nova Scotia
B3J 2M4

Sir:

We are pleased to submit herewith the second Annual Report of the Nova Scotia Dairy Commission for the fiscal year ending December 28th, 1985. Reports prior to 1984 were incorporated as part of the Annual Report of the Livestock Services Branch of the Nova Scotia Department of Agriculture and Marketing.

Respectfully submitted,

R. Lorne MacDougall
Chairman

R.L. Mason
Manager

NOVA SCOTIA DAIRY COMMISSION
ANNUAL REPORT

Year Ending **December 28, 1985**

Commission Members
R. L. MacDougall, Q.C.—Chairman
D. L. Harlow—Member
R. S. Johnstone—Member
J. M. Killawee—Member
J. M. MacConnell—Member

Staff
R. L. Mason—Manager
P. M. Green—Accountant
T. G. Nelson—Accounting Clerk
E. L. Faulkner—Secretary

Introduction

The Nova Scotia Dairy Commission was established on June 1, 1967 by an act of the legislature to administer Part XVIII of the Agriculture and Marketing Act entitled the Distribution and Sale of Milk.

Setting up a dairy commission was recommended by the Nova Scotia Milk Industry Inquiry Committee, which submitted a report to the Lieutenant-Governor on March 4, 1967. Previously milk control was vested in the Board of Commissioners of Public Utilities for all of mainland Nova Scotia excepting Antigonish and Guysborough counties. Cape Breton Island and Antigonish and Guysborough counties operated under price control by the Cape Breton Milk Marketing Board.

The Commission consists of five members appointed by the Governor-in-Council to hold office on a part-time basis for five years.

One member represents the Nova Scotia Milk Producers Association and the Cream Producers Association of Nova Scotia; one member represents the milk processors in Nova Scotia; and three members are in no way actively associated with the dairy industry.

There were no changes among Commission members or staff during the year.

Objectives

The primary objective of the Commission is to assure availability of an adequate supply of good-quality milk for human consumption at reasonable prices.

Among the wide range of responsibilities assigned to the Commission under the legislation, some of the more important duties include:

—setting milk prices
—licensing milk producers, processors, jobbers, and bulk milk transporters
—conducting plant audits
—compiling industry statistics
—providing regulations to ensure milk quality
—administering the Market Sharing Quota Program
—providing a fluid quota system
—administering a price equalization system
—setting bulk haulage rates
—mediating disputes within the industry
—providing regulations governing milk production, transportation, and processing.

Milk Production

The Market Sharing Quota Program referred to later in this report is a major factor in governing the total milk production by dairy producers. Fluid milk sales, costs of production, and weather conditions are also important considerations.

Producer numbers continue the decline that began many years ago. The trends towards larger farms and higher milk production per cow have meant there is no correlation between total production and the number of licensed farms.

TOTAL MILK SHIPMENTS TO PROCESSORS

Year	Quantity Litres	Licensed Fluid Milk Farms
1985	168 299 565	594
1984	172 119 237	615
1983	164 740 598	630
1982	171 115 541	645
1981	170 185 446	656
1980	168 527 400	675

Milk Utilization

Five companies process milk in Nova Scotia. Two of these companies process milk at branch operations in Newfoundland. Milk that is not used for fluid sales in Nova Scotia or Newfoundland is processed into manufactured products, except for a small volume that is sold to New Brunswick and Prince Edward Island.

Fluid milk sales represented 68.8 per cent of the total Nova Scotia milk production in 1985. Manufactured products included Ice Cream and Mixes, Cottage Cheese, Yoghurt, Skim Milk Powder, Butter, Cheddar Cheese, Gouda Cheese, Whey Powder and Condensed Whey.

Milk for fluid consumption in Nova Scotia increased by 1.7 per cent, while sales to Newfoundland decreased by 3.5 per cent. Total fluid sales of 115,795,731 litres were 1.3 per cent over 1984 sales of 114,289,024 litres. Comparable 1983 sales were 114,121,397 litres.

PRODUCT SALES WITHIN NOVA SCOTIA

Product	1985 (Litres)	1984 (Litres)	Increase/ Decrease (%)
Standard Milk	45 408 190	47 543 537	-4.5
Partly Skimmed Milk	46 562 956	43 707 977	+6.5
Skim Milk	6 600 631	5 960 705	+10.7
Buttermilk	277 611	289 059	-4.0
Chocolate Drink	4 346 225	4 248 687	+2.3
Blend & Coffee Cream	2 912 405	2 695 125	+8.1
Whipping Cream	474 976	473 056	+0.4
Sour Cream	219 572	206 854	+6.1
Egg Nog	383 269	335 296	+14.3
Total	107 185 835	105 460 296	+1.6

CREAM SHIPMENTS TO NOVA SCOTIA PROCESSORS

Year	Butterfat (kg)	Residency of Producers as of August		
		N.S.	N.B.	Total
1985	219 247	181	14	195
1984	223 421	188	14	202
1983	224 934	202	15	217
1982	236 823	243	14	257

As with milk, shipments of farm-separated cream are greatly affected by the availability of Market Sharing Quota. The three creameries receiving farm-separated cream in Nova Scotia are located in Amherst, Tatamagouche, and Scotsburn. The New Brunswick producers ship to the Amherst plant.

Milk Pricing

The Dairy Commission determined the wholesale and minimum retail prices for milk sold by processors on the Nova Scotia mainland and Cape Breton Island. They also set the minimum price paid by processors to producers living on the mainland and Cape Breton Island for milk utilized for Class I and II dairy products.

Class I milk includes all milk and cream sold in liquid form in Nova Scotia. Class II products include mainly ice cream and mixes, cottage cheese, and yoghurt. Milk utilized for Class III(a), primarily cheddar cheese, and Class III(b), primarily skim milk powder and butter, is priced by the manufacturer, Farmers Co-operative Dairy Ltd. Prices paid to producers for milk sold to other provinces are determined by the marketplace.

During 1985 the Commission continued to study the problem of discounts on milk prices by processors. A 1983 moratorium on the escalation of discounts remained in effect. Exemption from the fixed prices set by the Commission was provided if a contract involving discounts had been entered into prior to October 5, 1984.

COMMISSION-FIXED WHOLESALE AND MINIMUM RETAIL PRICE — STANDARD MILK (3.25% BUTTERFAT)

	Nova Scotia Mainland	Cape Breton Island	Effective Date
1 litre pouch	$ 1.02	$ 1.03	December 29, 1985
2 litre carton	2.06	2.08	
1 litre pouch	.98	.99	May 26, 1985
2 litre carton	1.98	2.00	
1 litre pouch	.94	.95	August 26, 1984
2 litre carton	1.90	1.92	

BASIC PRODUCER PRICES PER HECTOLITRE OF MILK[1]

	Nova Scotia Mainland	Cape Breton Island	Effective Date
Class I	$55.41	$56.38	December 29, 1985
	53.66	54.63	May 26, 1985
	51.41	52.38	August 26, 1984
	49.41	50.38	December 1, 1983
Class II	40.23	40.23	August 25, 1985
	39.20	39.20	August 26, 1984
	38.38	38.38	April 16, 1984
	37.73	37.73	January 16, 1984
	37.35	37.35	August 22, 1983
Class III(a)	38.04	38.04	August 16, 1985
(b)	36.54	36.54	
(a)	37.01	37.01	August 1, 1984
(b)	35.51	35.51	
(a)	36.19	36.19	April 1, 1984
(b)	34.69	34.69	
(a)	35.54	35.54	January 1, 1984
(b)	34.04	34.04	
(a)	35.16	35.16	August 1, 1983
(b)	33.66	33.66	

[1]Basis 3.6 kilograms of butterfat per hectolitre

Class I milk prices were increased twice in 1985, each time by 4¢ per litre. Producers received 2¼¢ of the first increase and 1¾¢ of the second. The butterfat differential was revised from 47¢ to 48¢ effective December 29, 1985. The differential is the amount per hectolitre by which the producer price increases or decreases for every one-tenth change in the standard butterfat test of 3.6 kilograms.

Class II and III milk prices increased by $1.03 per hectolitre in August in response to an increase in the support prices for butter and skim milk powder set by the Canadian Dairy Commission. The support prices are used by the Canadian Dairy Commission to effect a Target Return Level for industrial milk and cream. The Target Return Level is calculated according to a formula which measures changes in farmers' cash costs and other factors.

Farm-separated cream prices paid by Scotsburn Co-op for Special Grade increased in August by 7¢ per pound to $2.33 from $2.26 and for First Grade to $2.26 from $2.19.

FEDERAL DAIRY PRODUCT SUPPORT PRICES

Skim Milk Powder	Butter	Target Return Level	Effective Date
$2.922	$4.929	$45.68	August 16, 1985
2.85	4.784	44.65	August 1, 1984
2.79	4.71	43.83	April 1, 1984
2.74	4.60	43.18	January 1, 1984
2.72	4.55	42.80	August 1, 1983

AVERAGE VALUE PER HECTOLITRE PAID TO FLUID MILK PRODUCERS

	1985	1984
January	$47.07	$43.15
February	47.17	45.36
March	47.60	45.16
April	47.45	45.25
May	47.48	45.06
June	48.12	44.15
July	48.38	44.33
August	48.42	45.17
September	49.12	46.69
October	49.90	47.48
November	50.86	48.07
December	49.93	47.50
Average for the year	48.44	45.77
Average Butterfat Test	3.71 Kg	3.72 Kg

The total amount paid by processors to fluid and industrial milk producers in 1985 was $81,520,781. The total value in 1984 was $78,751,920; and in 1983, $72,215,369.

Price Equalization

Price equalization which began on a trial basis for one year in April 1984 with producers shipping to four companies participating, developed into a permanent system involving all producers in April 1985.

Instead of basing prices to producers on the different classes of milk utilization at the plant to which the milk is shipped, price equalization provides for producer payments according to provincial utilization.

Each month the Commission compiles information on the milk utilization at each plant. Three blend values for milk are determined: a fluid milk value to be paid to Cape Breton Island and Yarmouth County producers, a fluid milk value to be paid to all other Nova Scotia producers, and a surplus-to-fluid-milk value, which is paid to all producers.

These prices, along with a Commission-calculated fluid payout percentage on quota, are used by the plants in paying their producers. Plants that overpay their producers compared to their own utilization values are compensated by the Commission from funds received from plants that underpay their producers.

In February a province-wide producer vote was held to determine whether the trial price equalization system should be extended to all producers on a permanent basis. Approximately 85 per cent of the producers voted; 73.2 per cent were in favour. In response to the vote, the government proclaimed enabling legislation, and the Dairy Commission passed regulations to officially begin the program.

Following is a summary of the payout percentages of fluid quota per hectolitre and values for milk since the official start of price equalization.

SUMMARY OF PRICE EQUALIZATION VALUES

Month	Payout % of Fluid Quota	Fluid Value: Cape Breton Island & Yarmouth County[1]	Fluid Value: Other Areas[1]	Non-Fluid Blend Value[1]
April	83.86	$51.96	$51.14	$37.21
May	82.76	51.98	51.16	37.29
June	81.43	54.10	53.28	37.03
July	77.03	54.24	53.39	37.47
August	81.75	54.06	53.25	37.67
September	85.76	53.96	53.15	38.45
October	88.19	53.85	53.05	38.72
November	86.63	53.97	53.16	38.93
December	85.38	54.09	53.27	38.37

[1]Price per hectolitre of milk, 3.6 kilograms of butterfat.

Bulk Haulage Rates

A study on bulk haulage rates for milk being moved from farms to processors and for inter-plant movements was begun in March by Commission staff and Doane Raymond, Management Consultants of Halifax. There were no changes in rates during the year, as the study was not completed in 1985.

Market-Sharing Quota Program

July 1985 marked the completion of 11 years in which Nova Scotia has participated in the Canadian Milk Supply Management Program for industrial milk and cream. The program began in December 1970 with an agreement signed by Ontario, Quebec, and the Canadian Dairy Commission. By 1974 all other provinces had joined except Newfoundland, which produces no industrial milk.

The program is administered by the Canadian Milk Supply Management Committee, which is made up of representatives of provincial marketing boards and provincial government agencies and is chaired by the Canadian Dairy Commission. It is the responsibility of the Canadian Milk Supply Management Committee to determine a National Market Sharing Quota (MSQ) related to the demand for industrial milk and cream and in turn share this quota among the provinces. Costs associated with exports of surplus product are divided among provinces to be paid by producers.

National quotas are expressed in kilograms of butterfat. In meeting the Canadian demand for dairy products on a butterfat basis a surplus of skim milk powder is produced. Disposal of this powder on the world market at a loss means dairy farmers must pay an "in-quota levy." Any milk or cream production in excess of quota results in an "over-quota levy" to cover disposal costs of both butter and skim milk powder. Production within Canadian requirements is eligible to receive subsidy from the Canadian Dairy Commission at a rate of $1.675 per kilogram of butterfat.

At the start of the 1984/85 MSQ year in August, Nova Scotia's share of the national quota was 2,164,000 kilograms of butterfat or 1.26 per cent of the total. Owing to a forecasted decline in Canadian consumption, quotas were reduced to 2,142,000 kilograms in January.

The 1984/85 year witnessed a departure from the traditional method of setting uniform in-quota and over-quota levy rates in Canada. Each province was advised of what their share of costs would be and was allowed to choose how they would collect the money.

With considerable input from the Milk and Cream Producers Advisory Committee, the Nova Scotia Dairy Commission decided to reduce the amount of issued quota to producers by 4 per cent, thereby forcing more milk into an over-quota levy situation. In-quota levy rates for milk producers were set at $5.80 per hectolitre in August 1984 and were raised to $6.00 in February. Similarly, over-quota levy rates were raised from $34.38 to $36.00. The over-quota levy rate for cream producers was $4.00 per kilogram.

Despite the reduction in quotas and higher levies, both milk and cream production slightly exceeded levels of the year before. Total in-quota levies increased from $3,057,767 in 1983/84 to $3,635,274 in 1984/85. Similarly, over-quota levies increased from $109,853 to $468,618. Over-quota levies were paid by 358 milk producers and 11 cream producers in 1984/85.

NOVA SCOTIA MSQ PRODUCTION (KILOGRAMS OF BUTTERFAT)

	1984/85	1983/84	Change	%
Fluid Producers	1 957 603	1 944 976	12 627	0.6
Manufacturing Producers	6 903	14 039	-7 136	-50.8
Cream Producers	225 471	220 531	4 940	2.2
Total	2 187 977	2 179 546	10 431	0.5

SUMMARY OF LEVY AND SUBSIDY PAYMENTS 1984/85

	In-Quota Levy	Over-Quota Levy	Total Levy	Subsidy Payments
Fluid producers	$3,626,087	$462,090	$4,088,177	$3,209,437
Manufacturing producers	9,187	—	9,187	11,563
Cream producers	—	6,528	6,528	372,000
Total	3,635,274	468,618	4,103,892	3,593,000

The Canadian Milk Supply Management Committee agreed on a unique structure of levies for the 1985/86 year. For Nova Scotia the breakdown was as follows:

	MSQ Utilization In Kilograms	In-Quota Levy Per Hectolitre	Subsidy Per Kilogram
Up to	2 030 000	$ 5.85	$1.675
Up to	2 080 000	29.73	1.675
Up to	2 128 000	29.73	None

Production in excess of 2,128,000 kilograms would incur an over-quota levy of $38.00 per hectolitre for milk producers and $4.00 per kilogram for cream producers. Quota was issued to producers at the 2,080,000-kilogram level with 224,640 kilograms to cream producers and 1,855,360 kilograms to milk producers. For ease of understanding, quota to milk producers is allotted in litres of milk.